

## ISS EVA Research Roundup: August 11<sup>th</sup>, 2022

### Weekly Research

**Names in the News: Moller-Maersk (MAERSKB DC) and Crown Holdings (CCK) (report)**  
Moller–Maersk continues to (proverbially) sail through rough seas – with global supply chain havoc, increasing fuel/energy inflation, and overall macroeconomic uncertainty. The PRVit framework rates MAERSKB DC as a ‘Buy,’ based on improving underlying EVA Fundamentals. Our second name for the week is Crown Holdings. The U.S. packaging firm recently reported earnings, with high top-line growth based on stronger demand for beverages and food packaging. We rate CCK as a ‘Buy,’ based on strong Profitability, very low Risk, and moderate Valuation scores.

### Industry Snapshot: U.S Banks (report)

From year-end 2021, aggregate Sales Growth peaked around a decade high of 7.5% but rolled over from March 2022 onwards. The metric has currently contracted by 300 basis points, from previous highs. EBITDAR Margin has contracted to 58.1%: still above the late-2020 dip. If the current inflationary conditions persist and future rate hikes come into play, banks may experience increased net interest income and therefore higher operating profits. But there is also a possibility of fewer mortgage applications: the average U.S. mortgage size has seen contraction from April 2022.

### Industry Snapshot: Global Interactive Media and Services (report)

Aggregate Sales Growth improved from 2021, reaching a 13-year high of 35.8% in September 2021. Although, with weakening demand, Sales Growth rolled over at the start of 2022, contracting to 19.3% in July. With some firms, a slowdown in digital advertising demand has also contributed to slower top-line growth. EBITDAR Margin decreased by 210 basis points, from April 2021 through to July 2022. Sustained expansion of both adjusted COGS and adjusted SG&A expenses (as a percentage of sales) have put downward pressure on the EBITDAR Margin.

### Screens

#### Good Growth for a Better World: Russell 2000 (report)

We identify attractive names in the Russell 2000 Index with strong EVA growth scores (Profitability Trend, P2), attractive PRVit, and strong ESG Performance Scores. The PRVit framework compares a firm’s operational Quality to the Value paid in the market: the greater the disconnect between Quality and Value, the more favorable the stock.

#### Cheap Value for a Better World: Russell 2000 (report)

To complement the above, we also identify attractive names in the Russell 2000 Index with cheap Value scores (V), attractive PRVit, and strong ESG Performance Scores (see details below). The PRVit framework compares a firm’s operational Quality to the Value paid in the market: the greater the disconnect between Quality and Value, the more favorable the stock.

### Quant Reports

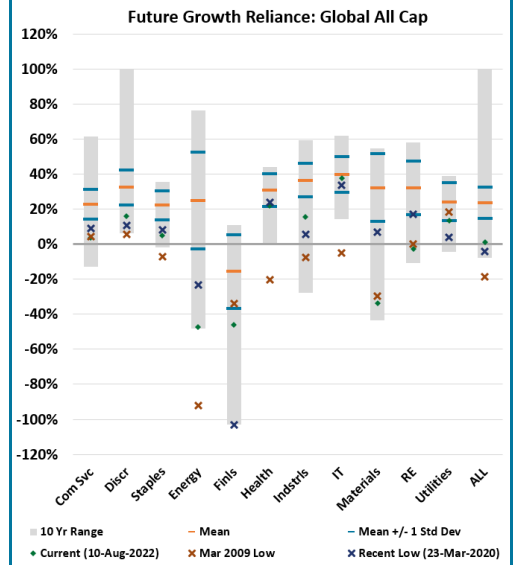
#### PRVit Factor Report: Asia ex Japan (report)

PRVit had a +941bps spread in June, which was its largest alpha, but in July, PRVit had a negative spread (-538bps). Despite the troubles in July, PRVit has averaged +167bps/month year-to-date. Low-Risk names outperformed high-Risk names in Emerging Markets but not Developed Markets. In Developed Markets, investors favored low Volatility Risk (R1), but our other factors all struggled. Overall, Cheap Value had a strong run at the beginning of the year but was off sharply in July.

#### Quant Corner (report)

PRVit has struggled in all regions as markets rebounded in the first 10 days of August. Quality worked in Emerging Markets but was off in the other regions. Value worked in the U.S., Europe, and the U.K.

### Chart of the Week



Our weekly Quant Corner report now includes Future Growth Reliance by sectors for the Global All Cap universe. Sectors where the green diamond is below the 0% axis have expectations of deteriorating profitability. The report also includes a similar chart for our MVA Spread metric, our cleaned-up price-to-book measure.

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We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +24,000 stock universe.

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## About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.

EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +24,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

## Key EVA Concepts

### The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

### EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

### EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

### EVA Momentum = $\Delta$ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

### EVA Shock = $\Delta$ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

### Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

### Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

## Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

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